



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN. No. 1662 (1951)

SUBJECT: Deferral of Farmer Programs Loans
FmHA Instruction 1951-A

October 22, 1987

TO: All State Directors, State Directors-at-Large,
Farmer Program Chiefs, District Directors, and
County Supervisors

Purpose/Intended Outcome

This AN is issued to provide guidance in the evaluation of farm plans when considering requests for deferral of payments on one or more loans. The intent is to assure proper and consistent consideration of deferral requests to accomplish program objectives.

Comparison with Previous AN

FmHA AN 1524 (1951) dated January 5, 1987, outlines considerations for developing long range farm budgets in connection with loan deferrals. This AN provides additional clarification of policies related to all farm budgets developed in conjunction with deferral requests.

Implementation Responsibilities

Questions have been raised regarding the proper interpretation of Section 1951.44 of FmHA Instruction 1951-A, which outlines the procedures for considering and processing deferrals of Farmer Program loans. In order to avoid misinterpretation of certain key points, we offer the following guidance:

- 1) Sufficient loans must be considered for deferral to permit the borrower to have adequate cash flow to pay necessary debts and essential farm operating and family living expenses during a typical year of the deferral period. This may require deferring all FmHA debts.

EXPIRATION DATE: September 30, 1988

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1951-A



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2) A deferral plan may include a reorganization of the farming operation, including the use of new enterprises, to overcome existing financial, economic or other limitations of the unit. If the proposed restructuring requires capital expenditures, a subordination or subsequent loan will be considered; deferral of additional loan installments (beyond those needed to allow the borrower to repay necessary debts and essential farm operating expenses and family living expenses) will not be used to create additional cash flow for capital purchases (these are not considered operating expenses).

3) A typical year during the deferral period is any year which most closely represents the borrower's operation for the entire deferral period. There may be no typical year for operations undergoing major reorganization.

4) The deferral of loan installments is not intended to create an unreasonably high cash flow margin. If the deferral of a complete note would cause an excessive cash flow margin during the entire deferral period, that note should not be deferred, but rescheduled or reamortized with an unequal payment schedule to provide the necessary cash flow. The same approach should be used for situations in which there is no typical year and payments must vary throughout the deferral period.

5) The borrower must submit realistic farm plans of operation to support any deferral request. Plans of operation in conjunction with loan deferrals will be realistic and supported by reliable records. If the borrower and County Supervisor cannot agree on a plan or plans, then the Supervisor should prepare a plan or plans which he/she believes is realistic and include those documents in the file along with the borrowers version(s) of realistic plan(s). Both sets of plans will be considered by the hearing officer if the request is rejected and appealed. Under no circumstances will FmHA personnel modify plans previously signed by the borrower without the borrower's written concurrence or initials beside the alterations.

6) If necessary, additional and subsequent deferrals may be granted in accordance with Section 1951.44(f) of FmHA Instruction 1951-A. Unanticipated surplus cash flow during the deferral period will be handled in accordance with Section 1951.44(k) of FmHA Instruction 1951-A. Borrowers may receive additional loan assistance during the deferral period provided the requirements of the appropriate loan making regulations are met.

We hope the above information will be useful in the consideration of deferral requests. This memorandum does not supersede any preceding or subsequent instructions provided as a result of recent decisions in the Coleman Case.

A handwritten signature in dark ink, appearing to read "Vance L. Clark", with a long, sweeping horizontal line extending to the right.

VANCE L. CLARK
Administrator